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# Managing international business: case of Poland (chapter 4)

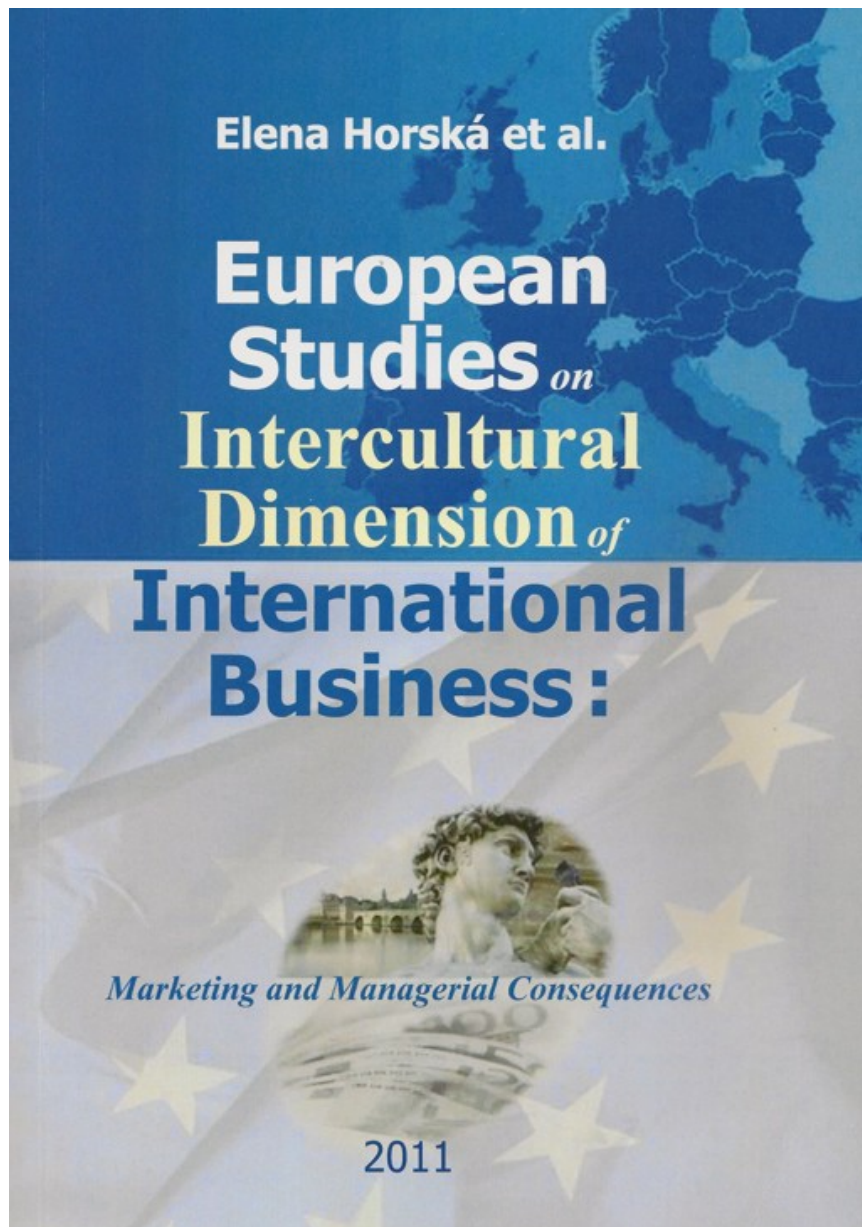
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## **Chapter 4.** **Managing International Business: Case of Poland**

**Krzysztof Wach**

### **4.1. Introduction**

In the European Union the legislation and regulations concerning entrepreneurship, businesses and especially small and medium-sized enterprises (SMEs), including support services have been noticeable since the beginning of 90s of the previous century. The European Union considers creating the right, appropriate and friendly environment for businesses to develop and flourish to be a central element in public policy for promoting enterprise and entrepreneurship in Europe. The appropriate business conditions are crucial for the survival and growth of firms, especially SMEs. The aim of improving business environment for international functioning of European enterprises has been longstanding at the European Union level.

The enlargement of the European Union created new possibilities for Polish entrepreneurs, who can in principle fully use with European freedom of enterprise within 27 Member States of the Community. The enlargement of the European Union is one of the most important events of the beginning of 21<sup>st</sup> century, which means for Polish enterprises potential advantages, but also threats. The increasing number of studies appearing after the enlargement reflects in this range the clear fragmentariness of scientific knowledge. In the post-accession period there are mainly theoretical publications or these having utilitarian character, whereas scientific research in this field were realized in pre-accession period yet and they with obvious reasons could not show the actual influence of the accession on the development of Polish enterprises. Such analyses, even if they had been conducted, would have been little reliable, as present period, that is after the entry of Poland to the European Union, really permits now on the qualification of the actual influence of the accession of Poland to the Community for Europeanization, internationalization and globalization of Polish enterprises.

The chapter focuses on the one hand on the influence of the development of international entrepreneurship among Polish enterprises, on the other one on the managerial and marketing aspects of doing business abroad by Polish enterprises. The chapter, apart from the introduction and conclusions, is divided into three main parts, that is methodology, literature review as well as results and discussion. The analytical and empirical part, including results, discussions and implications, consists of three following subdivisions: Polish foreign trade analysis, international entrepreneurship of Polish enterprises and intercultural dimensions of international business among Polish enterprises.

The main aim of the chapter is to investigate the current level and intensiveness of international entrepreneurship activities of Polish enterprises. In order to meet the main aim it was necessary to indicate the following operational aims:

- to do the literature review and the empirical research results in order to illustrate the current tendencies of Polish international entrepreneurship,
- to investigate the value and structure of foreign trade in Poland in the previous years in order to determine the level of international activities of Polish companies,
- to investigate using the empirical verification of the influence of the accession of Poland to the European Union on the development of enterprises,
- to investigate using the survey the way Polish enterprises manage international business including managerial and marketing aspects.

First of all, the author conducted the analyses of the literature in the field of theoretical background. Analyzing literature was chosen according to the relevance to the research problem.

Secondly, the author conducted the analyses of public available statistical data. The domestic state statistics were used thanks to Central Statistical Office of Poland (Główny Urząd Statystyczny, GUS), nevertheless when it was needed the data of the Statistical Office of the European Communities EUROSTAT were also used. State statistics were used to verify the given hypothesis. The author focused mainly on the period of 2002-2006, that is two and a half years before and after the accession, however the background for the years 1990-2008 was applied<sup>1</sup>. The year 1990 was chosen for Poland as a beginning year because of the foreign trade liberalization as a result of economic transformation. Where it was possible the author enumerated the data for the year 2007 and 2008, although unfortunately there is still lack of full statistical data for these years. Empirical research was based mainly on available public statistics. The analysis includes the following issues; volumes of foreign trade (absolute and *per capita* values), structure of foreign trade transactions, geographical orientation of foreign trade, share of export and import in gross domestic product (GDP), balance of current account, terms of trade (ToT), relative export orientation (ROE).

Thirdly, the own empirical research was conducted on the random sample of 323 enterprises in the year 2007 (Wach, 2008b). The private enterprises regardless of their size (micro -, small-, medium- and large-sized enterprises) are the objects of conducted investigations. Despite the fact, that in the recent years the special attention was attributed to small and medium-sized enterprises, especially in the aspect of European economic integration processes, the author decided to hug large enterprises as such investigation will allow to show diverse influence of the accession on one hand on the SME sector, and the other hand on large enterprises.

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<sup>1</sup> From 1992 to the end of April 2004 statistical data were collected on the basis of Single Administrative Document (SAD), which is the common European customs document. Since May 1, 2004, that is after the enlargement, foreign trade data are based on two sources of information: INTRASTAT declaration for registering turnover only among the EU Member States and still SAD for registering foreign trade turnover with non-EU countries.

Managerial perception was chosen as an operationalization method, thus it assures the acceptable correctness and the reliability, and first of all tops other methods in relation to practical usage, what is more it is applied in analogous research very often (Lyon, Lumpki, Dess, 2000). This method was applied for all qualitative variables (Konecki, 2000, p. 86). Thus, a survey (proceeded with a diagnostic pre-survey) was applied as a main investigative technique, replenished with technique of observation. For quantitative variables as operationalization method data analysis was applied. In support of received and accepted variables the questionnaire of inquiry was constructed as a basic investigative tool. Qualitative approach in an inquiry was applied mainly, which is the most often applied approach in analogous investigations.

Fourthly, the author together with the team - coordinated by E. Horská - conducted in the years 2007-2009 the survey within the project on *European Studies on Cultural Dimensions of International Business: Management and Marketing Implications*<sup>2</sup>.

The access of Poland to the European Union introduced a great challenge for the business sphere and inhabitants. Polish economy is in present an open economy with a stable internal market and intensive relations with international markets. From this reason the Polish economical efficiency is sensitive to external environment, it means global trends in the world economy and the development in the European economical space. Main problems of the enterprises in the several branches of the national economy in present globalization conditions is the competitiveness of products on the market in connection to the accesses of the enterprises to the financial sources both from several and foreign sources (structural funds, cohesion funds, state budget, etc.).

Enterprises functioning under conditions of progressive European integration as well as globalization of international economy should effectively use all existing possibilities, which are created by integration and globalization processes. Enterprises should search for their competitive advantage by the introduction of Europeanization or internationalization (and even globalization) strategy. Entries on foreign markets can improve the competitive advantage of an enterprise. It is very crucial that the possibilities, which are created for Polish enterprises by the process of political and economic integration in the frame of the European Union became fully used. Europeanization of activities of a firm is one of such possibilities. The well-known theoretician and practitioner of management Peter Drucker confirms it stating that more and more economic units, including small firms, operates as transnational companies (Drucker, 1998, p. 19).

Europeanization of enterprises means internationalizing of their activities in the European scale. It is one of seven dimensions of Europeanization meaning (Wach, 2008a, p. 9). Europeanization includes a wide range of behaviours from easy foreign trade transactions to undertaking independent productive activity in a host country. Europeanization of enterprises resulted from the introduction of Single European Market, which guarantees equal rights for all enterprises (including small and medium-sized ones) in all Member States (that means mostly the annulment of

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<sup>2</sup> For detailed methodology of the survey please read the first chapter of this book.

national protectionism). European market became “local” market offering national entrepreneurs new chances and possibilities.

Opening the discussion on the Europeanization strategy it is crucial to elaborate on motives determining the decision making process on undertaking activities on foreign markets (Wach, 2003). Literature distinguishes two basic motives making enterprises operate on international markets: *pull factors* (active factors) as well as *push factors* (reactive factors). Active motives induce firms to undertake activities on international scale and are equivalents of pull strategy. The possibility of achievement higher profits on foreign markets is - in this case - the motive of an entry on these markets. This strategy depends on intensifying promotion of particular products in order to achieve larger profits. This strategy focuses on attracting consumers to particular goods (Penc-Pietrzyk, 1999, p. 262). The pull strategy concerns these products, which bring profits on the domestic market. Introducing a given product on foreign markets, a firm expects profits enhancing. Nevertheless push strategy is based on the “thrust” of products of a firm towards consumers by choosing new markets of sales. The firm undertakes activities on foreign markets because of the lack of possibilities on domestic market. Producers' behaviour is very aggressive in this case, which is typical for the push strategy. The OECD report on globalization mentions two different motives additionally, namely *chance factor* and *entrepreneurial factor* (OECD, 1997). The chance factor is connected with the occurring conditions utilization. In other words it is just making good use of occurring possibilities by entering foreign markets. A firm knows how to make the most of every possibility. Entrepreneurial factor can be described as endeavouring to continuous growth. A firm enters new markets in order to achieve further assumed aims.

The choice of methods of internationalization depends on both endogenous factors (eg. the competitive potential of a firm) and exogenous ones characterizing the given target market. The choice of methods depends on some objective factors. Literature presents various models explaining the phenomenon of internationalization of enterprises, of which the most popular are stages models, network models and resource-based models. Different forms of entry on foreign markets are characterized by different efficiency, but also different costs of entry. At present stages models of internationalization are beyond, therefore we propose to systematize forms of entry describing intensity of internationalization taking their four degrees into account.

Small and medium-sized enterprises in contrast to large enterprises are less likely to globalize their activity, but ongoing process of integration and globalization makes it different. However, John Naisbitt formulated a *global paradox* stating that “the bigger global economy is, the stronger are the smallest players” (Naisbitt, 1995). According to the OECD data about 20-25% of small and medium-sized enterprises are involved in any kind of international activity, of which only 1% are reported to be global firms (OECD 1997, p. 22). Thus the most popular method of entry used by small and medium-sized enterprises is export (Daszkiewicz, 2004).

In turn, the abovementioned OECD report constructed the globalization index, which estimates the level of internationalization and/or globalization of studied enterprises. The index was constructed as 10-gradual-scale, in which 5

principal stages of internationalization of enterprises were distinguished (OECD, 1997, p. 22):

- no globalization (domestic firms in the scale from 1 to 2),
- limited globalization (mainly domestic firms in the scale from 3 to 4),
- major globalization (internationalized firms in the scale from 5 to 6),
- extensive globalization (extensively global firms in the scale from 7 to 9),
- full globalization (global firms at the scale of 10).

### **Developmental Tendencies of Foreign Trade of Polish Enterprises<sup>3</sup>**

Poland was the first post-Communist country to introduce a marketization and economic stabilization governmental program. Starting on January 1, 1990 foreign trade in Poland became free for all units on equal rights. In the situation of the collapse of foreign trade with the Soviet Bloc importers, the expansion of exports to the West provided the only opportunity at a time when many enterprises became convinced that in the absence of domestic demand, their survival depends on export (Fallenbuchl, 1994, p. 55). After the beginning of transformation in 1989, foreign trade turnover of Poland consistently increased, except for the period of 1992-1993 (table 4.1). In the years 1990-2006 the value of export increased 6 times, and of import – 10.5 times. The structure as well as geographic orientation of Polish foreign trade changed also dramatically.

To essential changes in foreign trade of Poland in the process of European integration it is necessary to point out the transformation in the period of 5 years (2001-2006) of deficit in trade from EU-15 of -6,6 milliard euro in 2001 into surplus of 1 milliard euro in 2006. In the same time the overage surplus in turns from nine new the Member States (EU-9, except Poland) grew up from 27 millions euro to 3,4 milliard euro. The dynamic growth of export on non-EU markets in the years 2001-2006 was accompanied by twofold growth of deficit of exchange to the level of -17.2 milliard euro. Deciding the largest influence on the deficit had foreign trade turnovers from Russia and China. The growth of deficit only with these two countries in the last 3 years leveled the surplus from EU-24 countries. High rate of Polish currency in the year 2006 (and the preliminary data for 2007 show, that the tendency this will be kept) caused that the objective export possibilities of Polish enterprises weakened because of increasing prices of Polish goods offered on foreign markets, however we should underline, that in the studied period the value of export of Polish enterprises grew up. In turn, the value of import, thanks to increasing the purchasing power of Polish currency, again enlarged the balance of foreign exchange in the years 2006 and 2007. The data for the year 2006 confirmed the growth of competitiveness of Polish goods. The share of high-processed products in export value increased. The main group of export products consists of electro-machine industry items. The crucial achievement of the accession is the profitable change for Polish foreign trade, which was observed, that is the increase of processed goods in Polish export from 56.8% in 2000 to 63.7% in 2006.

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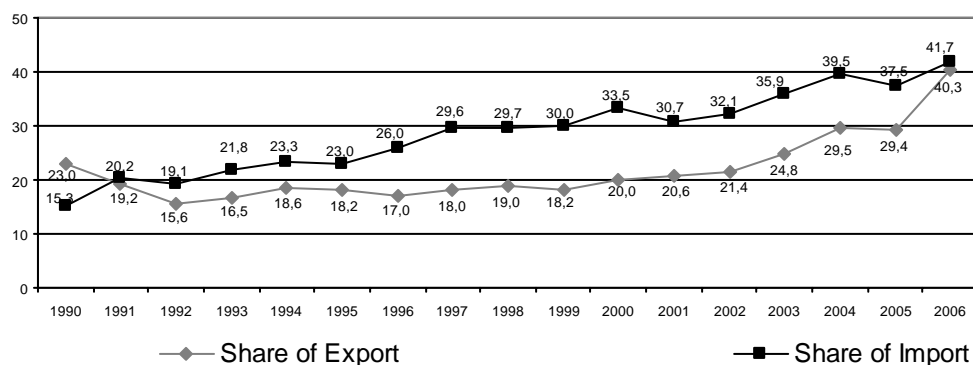
<sup>3</sup> For the background of international trade development in global perspective please see the second chapter of this book.

**Table 4.1. Foreign Trade Turnover of Poland in years 1990-2008**

Year	Export Volume (in mln USD)	Import Volume (in mln USD)	Balance Volume (in mln USD)	Growth Rate (previous year = 100%)	
				of Export	of Import
1990	14 316	9 528	4 788	-	-
1991	14 903	15 522	-619	104.1	162.9
1992	13 187	15 913	-2 726	88.5	102.5
1993	14 143	18 834	-4 691	107.2	118.4
1994	17 240	21 596	-4 356	121.9	114.7
1995	22 895	29 050	-6 155	132.8	134.5
1996	24 440	37 137	-12 697	106.7	127.8
1997	25 751	42 307	-16 556	105.4	113.9
1998	28 229	47 054	-18 825	109.6	111.2
1999	27 407	45 911	-18 504	97.1	97.6
2000	31 651	48 940	-17 289	115.5	106.6
2001	36 092	50 275	-14 183	114.0	102.7
2002	41 010	55 113	-14 103	113.6	109.6
2003	53 577	68 004	-14 427	130.6	123.4
2004	73 781	88 156	-14 375	143.3	129.6
2005	96 452	99 219	-2 767	130.7	112.5
2006	117 228	122 227	-4 999	121.5	123.2
2007	138 227	162 319	-24 092	117.9	132.8
2008	154 952	185 043	- 30 091	112.1	114.0

Source: Author' calculations based on data of Central Statistical Office of Poland GUS.

The share of export and import in the value of Polish gross domestic product (GDP) systematically increased, from the beginnings of transformation the share of export increased of 75% and the share of import increased of 172%, and what is more both indicators surpassed the share of 40% of GDP (figure 4.1).

**Figure 4.1. Share of Export and Import in GDP of Poland in years 1990-2006 (in %)**

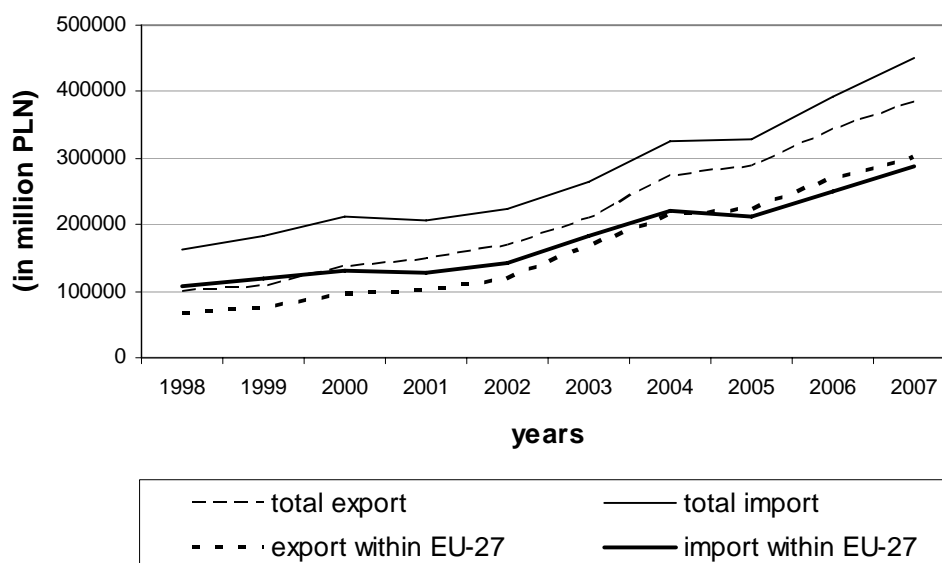
Source: Author' calculations based on data of Central Statistical Office of Poland GUS.

A couple of years before the accession to the European Union the foreign trade turnover began to increase rapidly. Several years before the accession of



Poland to the European Union, Polish export and import began perceptible to enlarge in size and value. The changes can be noticed in both general statistics as well as particular EU countries statistics. The largest dynamics of turnover of foreign trade was observed in the year 2004, what is more the increase concerns both the EU Member States (EU-15 and EU-9) as well as the exchange from remaining countries (including Russia and developing countries). After the accession of Poland to the European Union the value of import began stabilize, and at the end of 2005 leveled at 81.2 milliard euro, 100.8 in 2006 and 118.9 in 2007. In the same time the value of export still grew (of about 25% in 2004, of 19.8 % in 2005, of 23.1 % in 2006 year as well as of about 0.003 % in 2007), which had positive influence on trade balance across reducing the balance of turnover of foreign trade. Although negative balance is still significant, however in 2004, it was reduced at about 1,1 milliard euro (to -11.6 milliard euro), in 2005 of next 1.9 milliard euro (to -9.7 milliard euro), however in 2006 it enlarged of 3.1 milliard euro (to -12.8 milliard euro), however in 2007 trade balance carried out -17.6 milliard euro.

Furthermore analyzing the data for foreign trade transactions conducted within the European Union it is necessary to emphasize that in 2005 for the first time credit balance was observed (figure 4.2). The surplus of value of export transactions within the EU is noticeable. In the period 2000-2005 the share of import value from the EU countries in total import value of Poland amounted to 67%, while the same indicator for export amounted to 125%. The balance with the United Kingdom had a decisive impact on that situation. In 2004 the surplus in British-Polish external turnover increased of about 850 million euro and in 2005 of further 1100 millions euro. In 2004 deteriorations was observed only in 7 cases (the biggest with Lithuania), while in 2005 in 9 cases, but the overall situations was much better. Currently the best surplus is noted for balance with the United Kingdom, and the worst situations takes place in Polish-Italian transactions. The main Polish export partners are Germany, then France, Italy and Great Britain. The main Polish import partners from the EU are Germany, then Italy, France. One of the European crucial partners is the Czech Republic (credit balance). Germany is unquestioned Polish foreign trade partner. The value both export and import is indisputable (at least five times bigger than for other EU partners). Moreover the surplus is noted (credit balance).



**Figure 4.2. Foreign Trade Turnover of Poland in 1998-2007 (in millions PLN)**

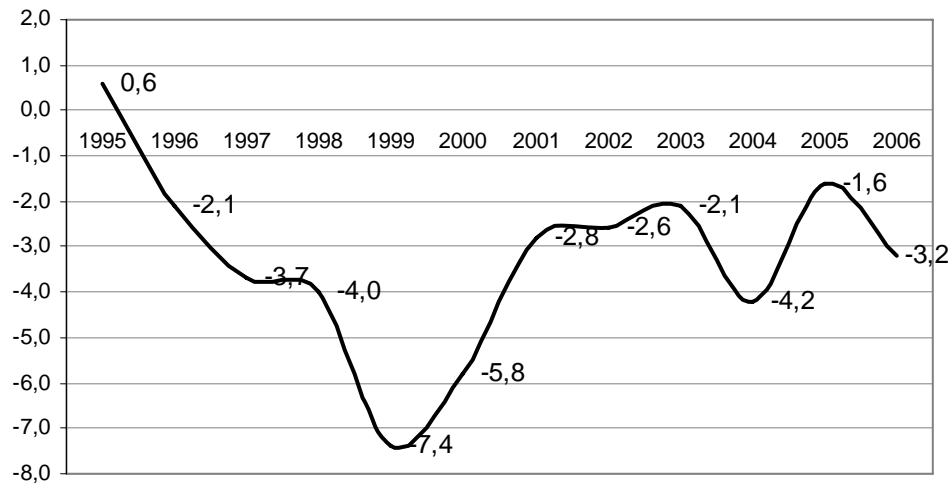
\*Data for all years include EU-27, that is current number of the EU Member States.

Source: Author' calculations based on data of Central Statistical Office of Poland GUS.

According to the statistics of World Trade Organization for the year 2006 (WTO, 2007a and 2007b), Poland places 30<sup>th</sup> rank in world merchandise export. The share of Poland in world merchandise export is 0.9% (110.3 milliard USD). As far as commercial services export is concerned, Poland places also 30<sup>th</sup> rank. The share of Poland in world merchandise import is 0.7% (20.5 milliard USD). As far as world merchandise import is concerned Poland places 26<sup>th</sup> rank. The share of Poland amounted to 1.0% (126.0 milliard USD). Poland places 33<sup>rd</sup> rank in world commercial services import. The share of Poland in world commercials services import is 0.7% (17.9 milliard USD).

For Poland, foreign partners from the European Union are very important. In the years 1999-2007 the average share of import from the EU-27 in total import of Poland amounted to 71.8% (average share for all 27 Member States is 65.0%). There is similar situation for export indicators. In the years 1999-2007 the average share of export into the EU-27 in total export of Poland amounted to 80.4% (average share for all 27 Member States is 68.3%). Worth noticing is the fact that the European Union plays very import role in foreign trade of Poland, even more important role than for the rest Member States.

Another important indicator for foreign trade is balance of current account measured in percentage of gross domestic product. The balance of payments is a record of a country's international transactions with the rest of the world. The balance of current account is the difference between the value of exports (credits) and imports (debits). The values in the last years for Poland are presented in the figure 4.3.



**Figure 4.3. Balance of current account of Poland in the years 1995-2006 (in % of GDP)**

Source: Author' elaboration based on EUROSTAT data.

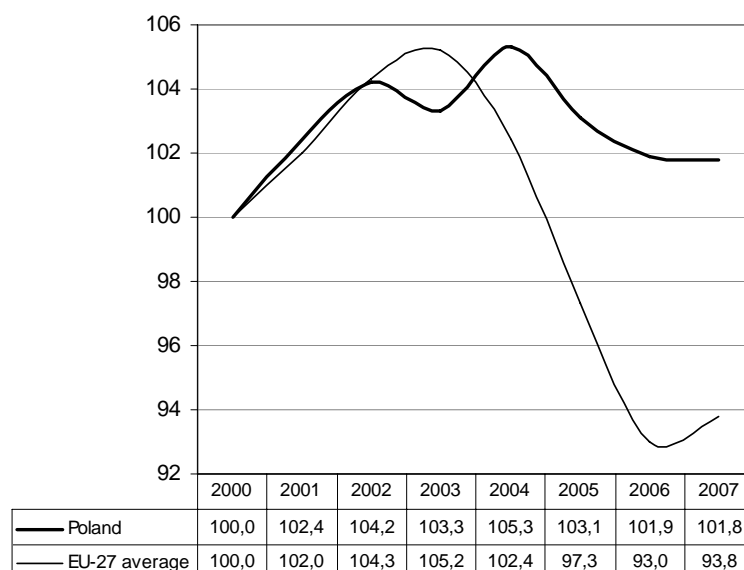
Analyzing absolute values for foreign trade is not sufficient. Very important indicator evaluating the conditions of foreign trade is the *terms of trade* (ToT). It indicates the ratio of the change of export prices of good and services to the change of import prices of goods and services. The following notation is the mathematical expression of such a relation:

$$ToT = \frac{P_{export}}{P_{import}} * 100$$

where:

$P_{export}$  is the export price index

$P_{import}$  is the import price index



**Figure 4.4. Terms of Trade of Poland in the years 2000-2007 (2000 = 100%)**

Source: Author' elaboration based on EUROSTAT data.

There are considerable differences in the development of the terms of trade between individual countries of the EU (figure 4.4). The most favourable terms of trade among EU Member States in the year 2007 have been reached by Romania, while the worst in Finland. Slovakia has very low value for the indicator, while the value for Poland is average, even better than the average for EU-27. A comparison of Visegrád countries shows that since 2000 the terms of trade have improved most in the Czech Republic and Poland. It deteriorated in the period 2000-2007 most in Slovakia and Hungary.

Another very interesting indicator is Relative Export Orientation Index (REO). The index express the openness of the economy of a particular country in comparison to the degree of openness of all countries in the world. The following notation is the mathematical expression of such a relation:

$$ROR_i = \frac{X_{ik}}{Q_{ik}} + \frac{X_{iw}}{Q_{iw}}$$

where:

Q is the value of GDP expresses in EUR in current prices

X is the value of export volume in EUR in current prices

<sub>k</sub> is the indication for the particular country economy

<sub>w</sub> is the indication for the economy of rest of the world

The degree of openness of Polish economy in the years 2004-2006 was similar to the average value for all Member States of the European Union. In 2006 the index amounted to 1.04, which means that there were still 16 countries ahead.

#### **4.3. International Entrepreneurship Development of Polish Enterprises**

The own empirical research was conducted on the random sample of 323 enterprises in the year 2007 (Wach, 2008b). As far as the size of enterprises is concerned, the structure of the research sample embraces:

- 58% of microenterprises (of which 25% self-employed entrepreneurs);
- 24% of small enterprises;
- 13% of medium-sized enterprises.
- 5% of large enterprises.

The average employment in the research sample amounted to 90 persons.

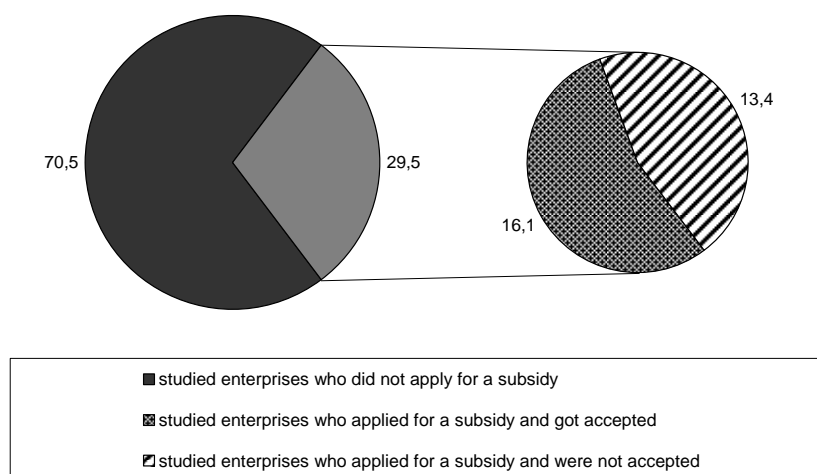
In turn, as far as the range of activities is concerned, the structure of the research sample embraces:

- 50,6% of locally and regionally operating firms,
- 25,2% of nationally operating firms,
- 23,4% of internationally operating firms (of which 13% only within the EU).

The accession of Poland to the European Union caused the insignificant change in identifying main business rivals of Polish enterprises acting in Małopolska Voivodeship. In both cases, before and after the accession, the main rivals of studied enterprises are other national firms, however their share after the accession fell about 15% (from 82.7 % to 69.9 %), whereas foreign rivals' share as well as Polish enterprises with foreign capital grew up at least twice (suitably from 7.7 % to 15.2 % and from 2.9 % to 11.2 %).

The competitive advantage of studied enterprises on domestic market in principle did not undergo the changes, in opinion of more than a half of studied firms in both cases before and after the accession, was defined as average, however in the opinion of near  $\frac{1}{4}$  of studied enterprises as strong. Nevertheless the competitive advantage of studied enterprises got better on European market. The percentages of firms, which perceive themselves as competitive on European markets grew up (from 43.3% to 52.2 %), whereas the percentage of firms considerate themselves as not being able effectively to compete on European markets dropped (from 16% to 10.6%). More than  $\frac{3}{4}$  of studied enterprises indicate the cost superiority as the reason of good competitive advantage.

The accession to the European Union resulted also in the improvement of external financial sources for Polish enterprises. As many as  $\frac{3}{4}$  of studied enterprises applied for the EU structural funds, more than a half of which got accepted (figure 4.5)



**Figure 4.5. Usage of the EU structural funds among studied enterprises in Poland in the year 2007 (in %)**

Source: Author's elaboration on the basis of own empirical research (survey, N=323)

In the opinion of the majority of studied entrepreneurs, the accession of Poland to the European Union had positive influence (58.9%), what is more the total minority only indicates the negative results of the accession (7.3%). In the opinion of respondents the profitable influence on the functioning of the studied enterprises in significant degree played:

- freedom of movement for goods (43.1%),
- freedom of movement for services (20.1%),
- freedom of establishment (18.6%),
- freedom of movement for workers (11.6),
- freedom of movement for capital (6.6%).

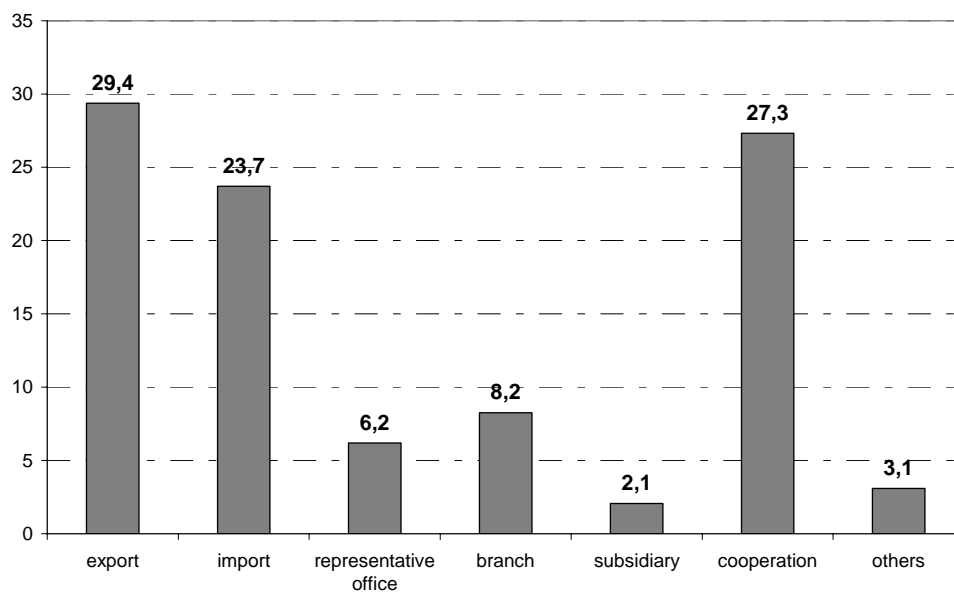
Partial results in this aspect are also very interesting. Using the abovementioned methodology of OECD concerning the degree of internationalization of enterprises, one should affirm, that in the studied community the degree of internationalizing measured with the OECD index of globalization was as follows:

- 84,4% makes domestic firms (no globalization),
- 10,4% makes mainly domestic firms (limited globalization),
- 1,5% makes internationalized firms (major globalization),
- 3,7% makes global firms (full globalization)<sup>4</sup>.

Taking it differently by using introduced above the classification of the intensiveness of internationalization it is necessary to state that 65% of the studied

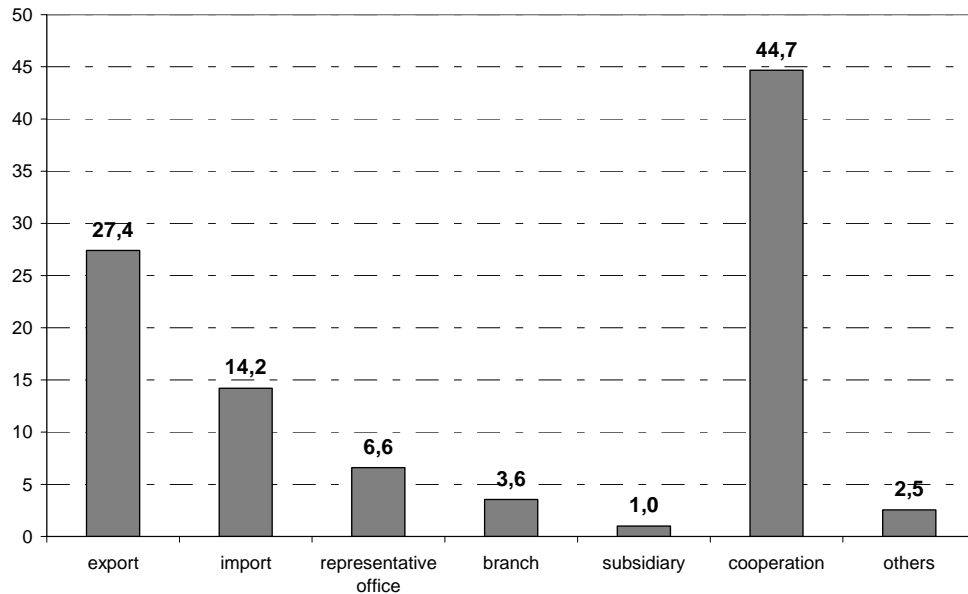
<sup>4</sup> Extensively global firms (extensive globalization) were not represented in the research sample.

enterprises did not undertake any activities on international markets, however among the remaining as many as 15% undertook such activities after the accession of Poland to the European Union (figure 4.6). What is worth noticing, most of them, undertook export activities (29.4%), but also cooperation with foreign partners (27.3%) as well as beginning to import products or service from the remaining countries of the Community (23.7 %). The plans of the studied enterprises in the range of Europeanization are convergent to the current level of Europeanization of studied enterprises, however with considerable share of cooperation with foreign partners (figure 4.7). These results can prove positive influence of the EU accession on the level of Europeanization of Polish enterprises as well as the tendency to retain this state of art.



**Figure 4.6. Europeanization activities conducted after the EU accession among Polish enterprises in the year 2007 (in %)**

Source: Author's elaboration on the basis of own empirical research (survey, N=323)



**Figure 4.7. Plans for Europeanization activities within next 12 months among Polish enterprises in the year 2007 (in %)**

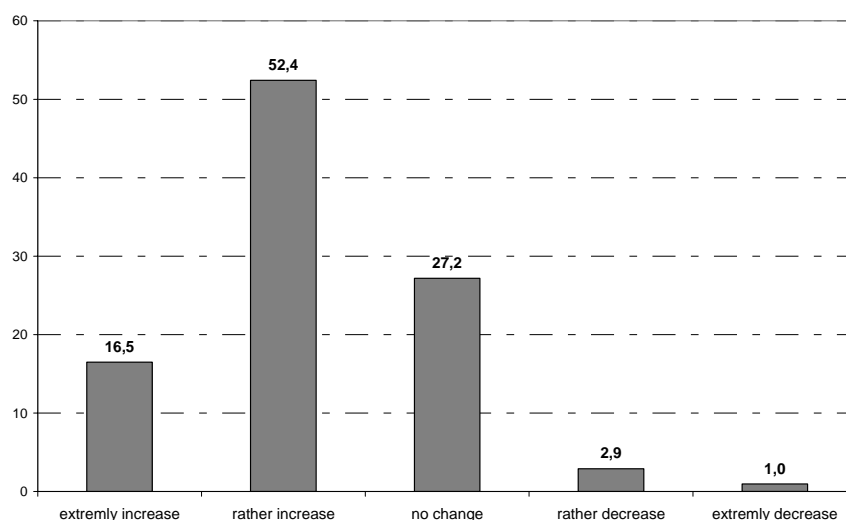
Source: Author's elaboration on the basis of own empirical research (survey, N=323)

As much as 27% of studied enterprises underwent export activities. The share of export in incomes of the studied exporters was diversified. In this group:

- among 41.4% of studied exporting firms did not exceed 10%,
- among 20.7% of studied exporting firms amounted to 11-25%,
- among 24.1% of studied exporting firms amounted to 26-50%,
- among 18.8% of studied exporting firms exceeded 50%.

Nearly a half of the studied exporters led export activity within the European Union, the same number of studied firms exported both within and outside the Community, only 2.3% of studied exporters led export activity only outside the European Union. The results of investigations are positive as far as the influence of the accession on the size of led export activities is concerned. More than  $\frac{2}{3}$  of the studied enterprises noted the growth of export share in incomes after the accession (figure 4.8).





**Figure 4.8. Changes of export share in incomes of studied Polish enterprises in the year 2007 as the result of the accession (in %)**

Source: Author's elaboration on the basis of own empirical research (survey, N=323)

#### **4.3. Managerial and Marketing Aspects of Doing International Business among Polish Enterprises**

The own empirical research was conducted on the sample of 20 Polish enterprises in the year 2008 as a part of international research project conducted in four countries (Austria, Slovakia, Spain, Poland). The project on *European Studies on Cultural Dimensions of International Business: Management and Marketing Implications* was coordinated by E. Horska<sup>5</sup>. As far as the size of Polish enterprises is concerned, the structure of the research sample embraces:

- 15% of microenterprises (3 cases);
- 25% of small enterprises (5 cases);
- 25% of medium-sized enterprises (5 cases);
- 35% of large enterprises (7 cases).

As for the sector of the economy, most of the studied enterprises operated in the industry (in 15 cases, that is 75% of the sample), the services (3 cases, 15%) and trade (2 cases, 10%) were rather rare.

All the studied enterprises were conducting international activities, at least using export activities. The frequency of export activities were as follow:

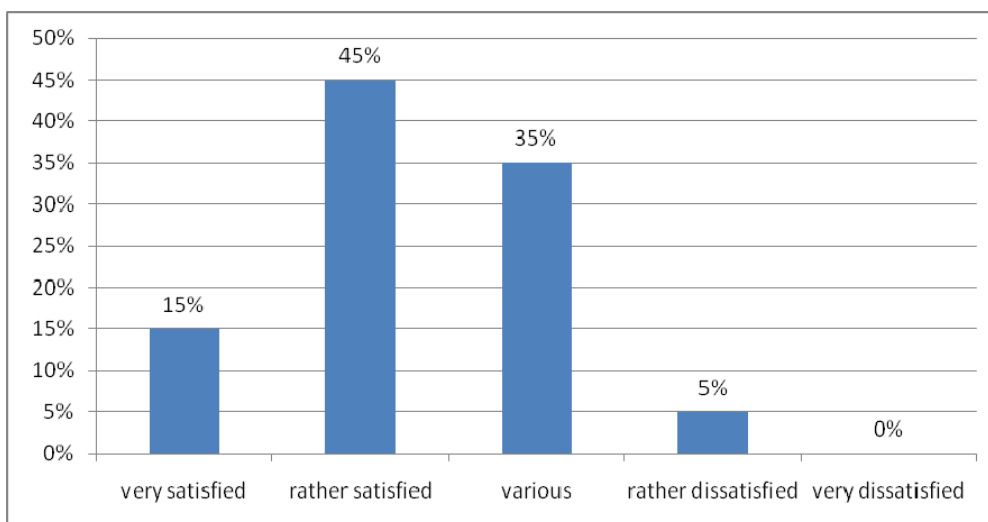
- regularly in 15 cases (75%),
- irregularly in 4 cases (20%),
- rare in 1 case (5%).

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<sup>5</sup> The Project registered under the number RAK/SPAN/SR/07 was fully funded by the Ministry of Education of the Slovak Republic.

More than a half of the research sample was very or rather satisfied with the present international activities (figure 4.9).

Export was the most popular type of international activities among studied enterprises, however cooperation was also mentioned (table 4.2).



**Figure 4.9. The level of satisfaction with international activities among Polish enterprises in 2008**

Source: Author's elaboration on the basis of own empirical research (survey, N=20)

**Table 4.2. Type of international activities engagement of Polish enterprises**

<i>Type of international activities</i>	<i>Cases</i>	<i>Percentage</i>
<b>1. Export Activities</b>	<b>20</b>	<b>100%</b>
<b>1.1. Direct export</b>	<b>19</b>	<b>95%</b>
a) agent or distributor	9	45%
b) branch office abroad	2	10%
c) others	8	40%
<b>1.2. Indirect export</b>	<b>7</b>	<b>35%</b>
a) local independent distributors	5	25%
b) trading companies	0	0%
c) others	2	10%
<b>2. Cooperation agreements</b>	<b>9</b>	<b>45%</b>
a) sale of license abroad	0	0%
b) strategic alliances	0	0%
c) managerial contracts	5	25%
d) piggyback	0	0%
e) others	4	20%
<b>3. Direct investments</b>	<b>4</b>	<b>20%</b>
a) joint venture	2	10%
b) manufacturing factory abroad	0	0%
c) others	2	10%

Source: Author's elaboration on the basis of own empirical research (survey, N=20)

The respondents were asked to determine 5 most important performance criterions of their offers by allocating a maximum of 10 points besides each criterion. The result were as follow:

- 9,2 – quality,
- 9,2 – reliability,
- 8,5 – assortment,
- 8,3 – design,
- 8,1 – distribution systems,
- 7,9 – shell life,
- 7,8 – price,
- 7,5 – conditions of payment,
- 5,3 – promotion,
- 4,2 – services.

The five business partners considered by the studied enterprises as culturally very close to the Polish culture and lifestyle are as follow Slovakia, the Czech Republic, Germany, Hungary and Ukraine. The close of Slovak and Czech (also Ukrainian) culture is obvious because of the common Slavic culture and roots. In the cases of that nations there is no need for using one language as using their own languages is enough for being communicative. Germany, rather a bit different culturally, were probably indicated because of the fact that this country is the main Polish trade partner and the Poles are used to their business etiquettes, which in Polish business is quite similar despite the fact that lifestyle is completely different. Hungary was also mentioned very often, the Poles and the Hungarians have a lot in common and have always been brothers in Polish and Hungarians proverbs, which are in use till now (in Polish: *Polak, Węgier – dwa bratanki ...*, in Hungarian: *Lengyel, Magyar - két barát ...*, In English: *the Pole and the Hungarian – just two brothers ...*).

In the survey the Polish entrepreneurs considered China, India and Arab countries to have the biggest cultural barriers at business relations, which is obvious and typical for the Europeans, not only for the Poles. Other countries were also indicated, but quite seldom, among them Turkey, Portugal, Spain.

The respondents were also asked ‘At which business relations do you feel the biggest economic and political barriers?’. The most frequently occurred answers included China, India, Belarus and Russia.

Quite interesting are results concerning the standardization and adaptation strategies. Adaptation of strategies for each culture is used only by 2 studied enterprises (10%) while the standardization of strategies on all markets is used by 15 studied enterprises (75%). Only in 3 cases (15%) the studied enterprises uses adaptation only for some cultures, namely France, China, India, Mexico and Arab countries. Such results can be explained by using a uniform strategy even on domestic market. Some Polish firms just imitate foreign, Western companies, for example LPP S.A. oraz RAVEL sp. z o.o. (see the case study 1 and 2).

### Case Study 1: Polish Clothing Companies Well-Known as Non-Polish

Several Polish clothing companies try to build strong and appealing brands that could compete also outside Poland with the international giants like H&M (from Sweden) or Zara (from Spain). Two of such Polish companies are LPP S.A. and RAVEL sp. z o.o.

**LPP S.A.** based in Gdansk, an incorporated company noted on the Warsaw Stock Exchange since 2001 which owns and distributes the following brands:

- **Reserved** (flagship mainstream brand),
- **Cropp** (urban & streetwear style fashion),
- **House** (youth fashion),
- **Mohito** (active women's fashion),
- **Esotiq** (women's underwear),
- **Rene Vilard** (exclusive women's underwear),
- **Henderson** (basic men's underwear),
- **Promo Stars** (advertising clothing).

LPP soon launched the Reserved brand also in other countries such as: the Czech Republic, Slovakia, Estonia, Lithuania, Latvia, Russia, Romania, Bulgaria, Hungary and Ukraine – until now there are over 120 stores under Reserved brand outside Poland.

**Ravel sp. z o.o.** is a Polish clothing company founded in 1989 and operating as a private limited company. It has retail outlets abroad including in Lithuania and the Czech Republic.

The above-mentioned companies used the foreign-sounding names on purpose in order to be considered as an international, Western company. Not only the Poles, but also other Central and Eastern European nations follow the same routine considerations.

Source: Author's own compilation based on *Reserved - the most successful clothing brand from Poland*, Ad-Buzzer, [online] <http://adbuzzer.wordpress.com> (retrieved on January 31, 2010).

## Case Study 2: Differentiation of Polish Products' Names

Many Polish companies use standardisation of the promotion message, including design, packaging and labelling, but and differentiation of a logo and a brand at the same time.

One of such examples is the drink called Kubuś produced by Maspex, Polish company localized in Wadowice.

The product under different names, but in the same composition is exported to the following countries:

- Lithuania – Kubuś (as in Poland because of the Polish minority in that country),
- Germany, USA, UK – Kubus
- Hungary – Kubu
- Slovakia, the Czech Republic – Kubík
- Bulgaria, Romania – Tedi
- Russia – Теди (Tedi)



Another example can be Polish luxurious small cakes called “Delicje” produced by Wedel (currently bought out by Nestle). In different countries they use different names and even different producer brands. For example in Slovakia the product uses the name of the distributor OPAVIA, which is a famous local firm.

#### **4.4. Conclusions**

As the idea of “global village” comes to life, life-styles and the way of thinking of people all over the world becomes similar. Parallel needs of the customers all around the globe is the main reason for standardization of products and services. Product standardization and the unification of consumer behaviour trends has brought about the creation of a new group of products – global products. As there is an increasing demand for global products, producers can standardize their offering. These goods are bought mainly by young people with cosmopolitan views. The globalization processes, taking place in the world economy, has a great impact on market unification, consumer needs unification and finally the unification of production. The global product is definitely one of the effects of the globalization process as well the spread of a similar lifestyle demand resulting in similar requirements of clients all over the world.

Consequences of the European integration processes have different forms. On the one side they create labour opportunities, re-allocation of production centers towards to the geographical regions with cheaper inputs. On the other side Europeanization has been creating the unification of consumption, culture and thinking. In the process of liberalization there are winners on the side of bigger players with the great economic power. In spite of the globalization process there has been developing the process of regionalization and enlargement of regional economic integration unions. European integration and globalization results in trade liberalization. opening economies processes and reinforcing the worldwide competition. The basis of globalization is the country integration that consists in linking their economic processes, which include foreign trade, investments and production.

For Polish enterprises, mainly small and medium-sized, there is of great importance to have a chance to export and enter onto the European and global markets. Poland's and Slovakia's accession to the European Union impacted Polish international trade exchange significantly. Spreading common European principles, mainly the freedom of movement for goods as well as Common Customs Tariff (CCT) over these two countries contributed to annulment of tariff as well as quasi-tariff barriers in trade turnovers, but also to smooth the physical, technical and fiscal barriers within the Community. These barriers still exists in foreign trade exchange beyond the EU area.

Recapitulating, the current situation creates potential and almost unrestricted possibilities of creating the new value of Polish enterprises on European markets. Preliminary governmental statistics as well as the presented results of own empirical research show, that Polish entrepreneurs successfully use possibilities created by the common market: they Europeanize their activities by increasing foreign trade transactions, but more and more bravely they make use of the European freedom for establishment.

The presented results of own empirical research make up the basis for verifying common opinions on the influence of the accession on Polish enterprises, they shows active attitudes of Polish entrepreneurs towards European markets. However it is crucial to underline that they are only the preliminary results of the

research, which should be the subject of further statistical analysis and verification in order to find and prove correlations among individual variables.

The comparison of foreign trade turnover in the period before and after the accession of Poland to the European Union shows significant growth of turnover in the post accession period, both in general formulation and especially within the European Union. The provided analyses of statistical data allows to prove the hypothesis that accession of Poland to the European Union had positive impact on foreign trade not only in the field of value of export, but what is more it resulted in reducing the total debit foreign trade balance as well as in credit of foreign trade balance within the European Union countries. The detailed conclusions are as follows:

- Over 3 years after the accession the export volume increased of 90% comparing the years 2004 and 2007, despite the unbeneficial conditions of exchange rate of Polish currency.
- Increasing foreign trade turnover is accompanied by the increasing openness of Polish economy measured by the relation of foreign trade to GDP. In 2006 the level amounted 81,5% (comparing 57,8% in 2003), which is more than the average for all EU-25.
- Increasing competitiveness of Polish goods can be observed. The share of high-processed products in export value increased from 56.8% in 2000 to 63.7% in 2006. The main group of export products consists of electro-machine industry items.
- Poland noted negative deficit in foreign trade balance. In Poland after the reduction of deficit in the years 2004-2006, it begun to increase and in the year 2007 it reached the highest level (table 1).
- The accession of Poland to the European Union helps to reorganize the geographical orientation of Polish foreign trade. In the period of 2001-2006 the balance of Polish foreign trade with the EU-27 was changed from the negative deficit of -6.6 milliard EUR in 2001 into the surplus of 1 milliard euro in 2006 (figure 2).
- For Poland foreign partners from the European Union are very important. The average share of import from the EU-27 amounted to about  $\frac{3}{4}$  of total import of Poland (average share for all 27 Member States is almost  $\frac{2}{3}$ ). There is similar situation for export indicators (80.4%).

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### **Summary**

The chapter, apart from the introduction and conclusions, is divided into three main parts, that is methodology, literature review as well as results and discussion. The analytical and empirical part, including results, discussions and implications, consists of three following subdivisions: Polish foreign trade analysis (based on available national statistics analysis), international entrepreneurship of Polish enterprises (based on own survey, N=323, in 2007) and intercultural dimensions of international business among Polish enterprises (based on in-depth interview survey, N=20, in 2008). The chapter focuses on the one hand on the influence of the development of international entrepreneurship among Polish enterprises, on the other one on the managerial and marketing aspects of doing business abroad by Polish enterprises.

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